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Who Knew?

Could a young lieutenant colonel working out of the White House basement have run the Iran-Contra arms operation on his own? It is hard to believe that other members of the president's inner circle weren't aware of the scheme

CIA Director Casey, Secretary of State Shultz, Secretary of Defense Weinberger, myself, the other members of the NSC—none of us knew ... [The] vice president did not know about any of this until yesterday.

As Attorney General Edwin Meese described it, the contra connection was a tight little secret—astoundingly tight. So far, the only official accused of knowing the whole story was Lt. Col. Oliver North, who lost his job on the National Security Council staff as a result of the scandal. North's boss, national-security adviser John Poindexter, also gave up his White House post, but Ronald Reagan himself contended that the Navy vice admiral was "not directly involved" in the use of Iranian arms money to buy military supplies for the Nicaraguan contras. Both inside and outside the administration, however, many people have found it hard to believe that other members of Reagan's inner circle weren't involved more deeply than they wanted to admit.

Just before the roof fell in on him, North told a colleague: "I never did anything without the permission of my senior officer." Despite North's reputation as a hard charger, there was a widespread suspicion that he was being used as a scapegoat. "It may be wishful thinking on the part of some in the administration to have Colonel North take the blame for everything," said Democratic Sen. Patrick Leahy, the vice chairman of the Senate Select Committee on Intelligence. "Colonel North did not act alone."

North's immediate superior, Poindexter, looked even less like a rogue elephant. Around the White House, the national-security adviser was known as the quintessential yes man. "John Poindexter is a creature of the military staff system," said a naval officer who has known him since they both were young ensigns. "For 30 years he's lived by the chain of command. It's a system which demands that you keep both superior and subordinate informed." But after they left the White House, there were reports that North and possibly Poindexter had destroyed some of their official documents—an action that may have been innocently routine, but that aroused in some people suspicions of a cover-up.

Near the top of the chain of command, Ronald Reagan's key men were sweating out the scandal. Donald Regan, the White House chief of staff, fretted that his own head might be the next one on the block. William Casey, the CIA director, was quoted as saying that all he knew about the scandal was the "gossip" he had heard. Casey reportedly brushed off the

Iranian affair as something that was of interest only to people "inside the Beltway" in Washington. Vice President George Bush, whose political prospects seemed to be damaged by the scandal, more or less dropped out of sight. "Where's he been—out of the country at funerals?" cracked Carroll Jones, Sen. Bob Dole's campaign chairman in New Hampshire. "Has anybody even seen George Bush?" Out of sight or not, some very big names in the Reagan administration found themselves caught up in an escalating round of disclosures and re-cremations. The key questions: who knew, what did they know and when did they know it?

Regan: 'Betrayed by His Own Arrogance'

Donald Regan was quick to say that he knew practically nothing about what North and his other subordinates had been up to. "Does a bank president know whether a bank teller is fiddling around with the books?" he asked a group of reporters. "No," he snapped, answering his own question. When a wire service reported that Regan had been kept fully briefed on the transfer of Iranian money to the contras, the chief of staff denounced the story as "ludicrous" and "totally unfounded." But at the White House, and around the Reagan ranch in Santa Barbara, it was increasingly difficult to believe that Don Regan would hang onto his job, whether or not he was implicated in the scandal. Sources said the president was disappointed with Regan's "Who, me?" performance. Nancy Reagan, who has always resented Regan's prime ministerial airs, was said to believe that the chief of staff had become damaged goods. Several of Reagan's most trusted confidants outside the White House had reached the same conclusion

and were prepared to say so to the president after his return to Washington this week.

When the scandal broke, Regan tried to claim that he had no personal responsibility for foreign policy, pointing out that Poindexter, as national-security adviser, had direct access to the president. That didn't exactly square with Regan's earlier descriptions of how he did his job. The former Marine officer and Wall Street executive used to boast that he sat in on nearly all of Poindexter's daily briefings of the president. And unlike Robert McFarlane, the previous head of the NSC staff, Poindexter had a reputation for being totally intimidated by the forceful Regan. During his nearly two years in the White House, Regan began to fancy himself as an authority on foreign affairs. In an interview with The New York Times in mid-November, he asked: "How much more experience in foreign policy do you have to have than I do to believe you are qualified?" The chief of staff is a take-charge man who liked to describe himself as the only person in the White House who knew the "full story" of what was going on. Now, says a former White House staffer, Regan has been "betrayed by his own arrogance."

Regan still had some assets, including his personal relationship with the president. "They're two self-made Irishmen from the wrong side of the tracks who love to swap jokes," a senior Reagan aide once observed. But the Iranian scandal was eat-

(Continued)

A Chronicle of Cowboy Diplomacy



A trade for hostages or global strategy? McFarlane

Summer 1985.

David Kimche of the Israeli Foreign Ministry tells national-security adviser Robert McFarlane that "moderate" elements in Iran will help free American hostages in Lebanon in exchange for arms. McFarlane also believes the contacts could lead to better relations with Khomeini's successors, possibly the Iranian military.



BRUCE HOERTEL

The first release: Weir

September 1985.

The Israelis—acting with U.S. approval, they say—acting on their own, according to the White House—deliver two plane-loads of weapons to Iran. Within a matter of days, hostage Benjamin Weir is released.

November 1985.

U.S. Hawk missiles are flown to Iran through Israel. Sources say Defense Secretary Caspar Weinberger, on Reagan's orders, authorized the shipments, and the CIA helped deliver them.

January 1986.

Reagan secretly signs an executive order lifting the Iranian arms embargo to allow weapons sales to Iran. The first legal shipment arrives in February.

May 1986. McFarlane and Oliver North, traveling in a plane carrying more arms,

Dealing with Satan: Iran

ABBAS—MAGNUM



meet in Teheran with Iranian officials. In July Father Lawrence Jenco is released in Lebanon. Further arms deliveries occur in August and October.

November 1986.

Hostage David Jacobsen is freed. As information about the arms-for-hostages trade becomes public, a defensive Reagan promises no more Iranian arms sales.

Last week.

Reagan fires North. North's boss, national-security adviser John Poindexter, resigns. Attorney General Edwin



LARRY DOWNING—NEWSWEEK
Confusion reigns: Reagan

Meese tells reporters that money from the sales was funneled to the contras. The Israeli government denies it sent money to the contras; contra leaders say they didn't receive it. Facing a barrage of inquiries on Capitol Hill, Reagan appoints a three-person commission to investigate.

ing into Regan's store of good will. Both the president and Mrs. Reagan were galled by his claim, in the interview with The New York Times, that the Iran mess still could be smoothed over by the White House "shovel brigade." But Regan's biggest mistake was his failure to protect his boss. At his news conference two weeks ago, the president manfully declared that the Iran decision was "mine and mine alone." Regan let the president shoulder the blame, even as he himself was dodging responsibility. The chief of staff still has not learned how to say "no" to the president. It apparently never occurred to Regan that the overture to Iran was likely to be a disaster. He deferred to the president's impulse instead of siding with the foreign-policy professionals—Shultz and Weinberger—who knew better.

Last week Regan seemed testy and defensive as he sparred with reporters. Aides insisted that he was pushing for full disclosure and still felt that he would be vindicated. "When you spend your formative years as a Marine commanding a couple of thousand troops in combat and the rest of your life in the boiler room of the [stock] market, you don't jump out the window every time things turn down," said one defender. But the chief of staff faced a growing legion of critics. "I don't know if Regan knew [about the contra connection], but if he didn't, by God, he should have," said Democratic Rep. Dave McCurdy. "I think Don Regan should be removed, and that it's time for Bill Casey to step down, too. The administration has a chance right now to cauterize the wound, but they haven't done it yet. A few more heads will have to roll."

Casey: Following the Money Trail

William Casey was in a predicament similar to Regan's. Either he did not know about the contra connection—in which case the CIA director was asleep at the switch—or he did know about it, in which case he might be culpable. President Reagan has already said in public that Casey was under direct orders not to tell Congress about the shipment of arms to Iran. Last week Sen. David Durenberger, the outgoing chairman of the Senate Intelligence Committee, said that as early as November 1985, CIA officials admitted arranging for a plane to fly to Iran with a load of weapons thinly disguised as oil-drilling parts. Casey personally approved that mission, which took place two months before President Reagan formally OK'd the arms shipments. Now some investigators are beginning to think that the CIA director

should have known about the illegal flow of money to the contras.

Casey's CIA also played a major role in the process by which profits were earned on the sale of arms to Iran. The agency withdrew weapons such as the TOW antitank missile and the Hawk anti-aircraft missile from U.S. military stockpiles and eventually reimbursed the Pentagon for their original cost. Then the arms were sold to Iran for a much higher price. At a White House briefing for congressional leaders last week, Meese described one typical transaction, the sale of 500 TOW's to Iran last August. The Army handed the weapons over to the CIA, which promised to pay between \$3 million and \$4 million (about \$2 million less than the replacement cost). The CIA transferred the arms to an Israeli broker, who deposited the initial purchase price, plus expenses, into a Swiss bank account set up by the CIA. The agency then reimbursed the Pentagon. Meanwhile, the broker sold the missiles to Iran for \$19 million. After expenses and commission, a \$12 million profit was channeled into a second Swiss bank account—this one controlled by the contras, according to Meese.

The contras claimed that they never saw the money. "We have no bank accounts in

Switzerland, nor access to any Swiss bank accounts," said Adolfo Calero, the most influential contra leader. But he conceded that the money might have been spent on the contras without their direct knowledge. "We have received services that we ... did not pay for," Calero said, referring to the air-dropped supplies his forces have received. "We don't know who paid for these flights and services, who arranged for them, and we don't know their magnitude. This was a matter for the U.S."

The Israeli government also asserted that none of the money had stuck to its hands. "Israel had no connection with the transfer [of funds]," Foreign Minister Shimon Peres told the Knesset. "Israel itself profited not at all." Some Israeli arms dealers, working as private citizens, did profit from the sales. But so far, according to sources in Washington and Israel, the evidence suggested that it was the CIA that controlled the crucial Swiss bank accounts. At least one airplane was purchased with a check from the Swiss-based Compagnie des Services Financières. The buyer, retired Air Force Maj. Gen. Richard Secord, denied that the plane went to the contras. But Secord has worked for the CIA in the past and was involved, along with

North, in the contra-supply operation.

It stands to reason that the CIA would have set up the banking operation. A retired senior intelligence officer said last week that the mechanism for reimbursing the Pentagon "would have been very carefully monitored. There are strict financial controls on accounts like that," he added. "because in secret operations, there's obviously a real danger that the money is going to be siphoned off." Intelligence sources said the CIA controls could hardly be activated without the director's knowledge.

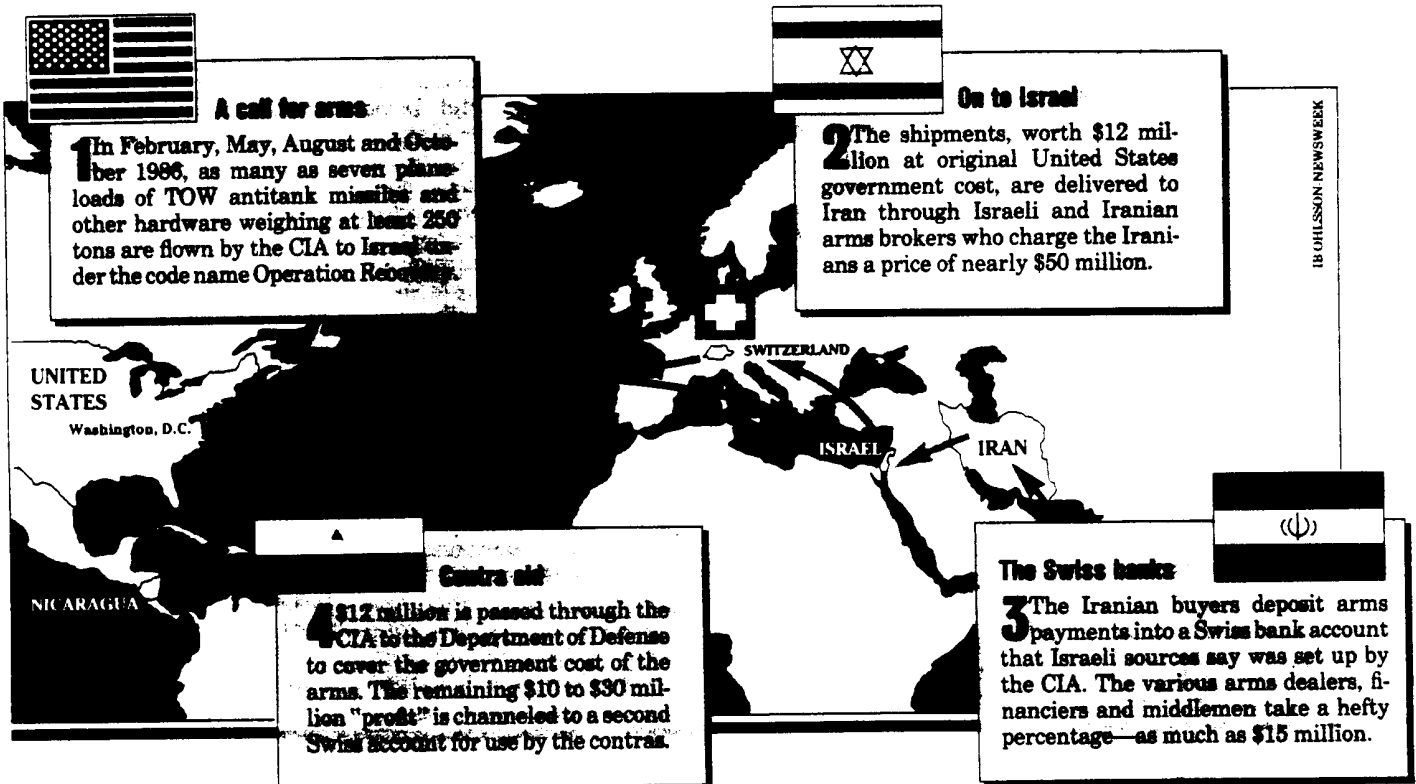
Bush: The Cost of Keeping Quiet

George Bush was high on the list of people who might have been expected to know about Oliver North's escapades. The vice president has had extensive contacts with the "private" supporters of the contra cause, including two meetings in his own office with Felix Rodriguez, the shadowy CIA operative better known by the pseudonym Max Gómez. Bush's national-

Following the Money: Secrecy and Profits

The money trail in the Iranian arms deal is a complex one in which there were large profits and deep secrecy. But the trail also suggests that far more people—particularly within the CIA—may have known what was going on than thus far disclosed. Arms were in fact shipped as early as the fall of 1985, before President

Reagan signed an "intelligence finding" authorizing the shipments. While Reagan has denied knowledge of these early shipments, he apparently knew about them. But the cash did not start to flow until early the next year, and it is still unclear exactly how it reached its ultimate destination—the Nicaraguan contras.



security adviser, Donald Gregg, a former CIA man himself, is reported to have been involved in setting up the operation at Ilopango airfield in El Salvador from which Gómez allegedly staged supply flights to the contras. And three times this year, Bush has made official visits to embattled Central America—to Guatemala, Honduras and Costa Rica.

The vice president also has a longtime working relationship with Robert McFar-

lane, who accompanied him on a condolence visit after the death of Saudi Arabia's King Khalid in 1982. Bush's political opponents have been circulating the rumor that McFarlane will be an adviser to Bush's campaign in 1988. Bush's spokesman, Marlin Fitzwater, says no such position yet exists, adding: "There's no sign-up sheet." In any case, Bush is well connected, as a former director of the CIA and a current member of the National Security Council ought to be.

But Fitzwater says "it's just not true" that Bush knew anything about the contra slush fund. He concedes that Bush sat in on the original discussions, last December and January, of the Iranian hardware-for-hostages deal, but the spokesman suggests that his boss had little to say at those meetings. "As a general rule, he doesn't always offer a lot of opinions," says Fitzwater, who adds that Bush prefers to counsel the president in private.

The Investigators: A Who's Who



DOUG BRUCE—PICTURE GROUP



JOHN FICARA—NEWSWEEK



PHIL HUBER—BLACK STAR

Assembled for a bipartisan probe: Muskie, Scowcroft and Tower

It's an unsettling image: a team of federal attorneys searching through the files of a White House aide and then calling him downtown for more intensive questioning. But what began a week ago in the office of National Security Council staffer Oliver North seems certain to be repeated regularly in the weeks ahead as the administration's Iranian blunder becomes the subject of intensive investigation by teams of prosecutors, federal agents, congressional staffers and a specially empaneled study commission. Here is a rundown on the probers and their likely tactics.

■ **The commission:** Uncertain whom he could trust, Ronald Reagan last week turned to the first refuge of beleaguered presidents, naming a high-profile commission to study and recommend changes in the operations of the National Security Council. The bipartisan group included former

Texas Sen. John Tower, a GOP stalwart; former Secretary of State and Democratic presidential aspirant Edmund Muskie, and ex-NSC adviser Brent Scowcroft, who now works with Henry Kissinger's consulting firm. This group may not have much punch. Among other things, it lacks subpoena power. It also may have credibility problems: Robert McFarlane, one of the key targets of any probe, worked for Tower on the Senate Armed Services Committee staff and is known to be close to Scowcroft.

■ **The Congress:** At least eight committees in the Senate and the House may have jurisdiction over parts of the investigation. The first formal hearings may begin next week before the House Foreign Affairs Committee, sessions that are supposed to feature CIA Director William Casey and former NSC adviser John Poindexter. But the real action may not commence until

early next year. Rep. Les Aspin, who chairs the House Armed Services Committee, and Sen. David Boren of the Senate Intelligence Committee have already begun interviewing low-level staffers, hoping to build their case from the ground up. Still, Democrats are trying not to appear too eager; they fear that a frontal assault on a popular president could end up hurting them as much as Reagan.

■ **The Justice Department:** Attorney General Edwin Meese III and a handpicked team of advisers began following the Iranian arms trail almost two weeks ago. Except for Meese, none had experience in criminal investigations—and it showed. When Meese's team finished questioning Oliver North, none moved to seal his office. This made it possible for North to return and reportedly destroy documents. Last week Meese brought in some pros, turning the investigation over to Associate Attor-

ney General Stephen Trott and the FBI. Still, congressional leaders demanded that Meese appoint a special prosecutor on the ground that he could not conduct an impartial investigation of his friend and patron Ronald Reagan. Meese has thus far refused.

■ **The laws:** All three probes will search for violations of federal law. Obvious subjects are the Boland Amendment and its progeny which, until October, prohibited U.S. funding of military efforts to overthrow the Sandinista regime, and the Arms Export Control Act, which bars arms shipments to countries supporting terrorist activities, such as Iran. Prosecutors may look to apply the broad conspiracy statute to actions that may have "defraud[ed] the United States." Other laws that might be applicable include the Antideficiency Act, which forbids unauthorized use of government funds, and the Neutrality Act, a statute which outlaws military actions against countries at peace with the United States.

■ **Tactics:** First, put every witness under oath: members of Congress are furious at alleged distortions made by McFarlane and Poindexter. Lying under oath can bring a perjury charge. Second, if the paper trail proves imperfect, investigators will need witnesses to turn state's evidence. By all accounts North is considered a "stand-up guy." Others may yet prefer to pull a Boesky, or a John Dean—in exchange for lenient treatment.

ARIC PRESS with
ANN MCDANIEL in Washington

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But in this case, George Bush could suffer a major political setback without opening his mouth. "He's portrayed himself as the guy who sits at the right hand of the Lord," scoffs a top adviser to one of the veep's Republican rivals, Rep. Jack Kemp. "So where was he on the sale of arms to Iran? If he was for it, why isn't he speaking out in Reagan's defense? And if he is against it, and says so, how loyal is he? Either way, he's hurt." Bush is particularly hurt among conservatives, a constituency that he has never entirely won over but whose support is crucial to securing the Republican presidential nomination. In the past, Bush has offended hard-liners by sticking up for George Shultz. Now his silence on the Iran issue has infuriated the right. "He has been involved in the contra crusade, but the longer he keeps quiet, the less credit he gets from conservatives," says Howard Phillips, chairman of the Conservative Caucus and a longtime critic of Bush. "Of all the losers, he's the biggest."

Fitzwater says that Bush firmly supports the administration's investigation of the contra money trail and favors taking a serious look at the "restructuring of foreign-policy decision making." This week Bush will make what is, in effect, his first real campaign speech for the 1988 election, an address at the conservative American Enterprise Institute in Washington. The subject of Iran and the contras "probably will come up," according to Fitzwater. But as Reagan's poll ratings decline, Bush is likely to become a target for any politician who doesn't want to tackle the president head-on. Among Republicans, that's still a lot of politicians. "There's no percentage in attacking Reagan," says another Kemp adviser. "Don't forget that the people voting in the Republican primaries are still going to love Ronald Reagan." Republican insiders, even those who like Bush, think it may be almost too late for him to "come out" as an independent political figure. "He should have been stating his own position before now," says a Republican pollster. "Now it will look like a damage-control operation."

Shultz: Nothing to Gloat About

The day after Reagan and Meese revealed that profits from selling arms to Iran had been funneled to the contras, George Shultz convened a meeting of his top advisers at the State Department. It was time to put the Iranian fiasco behind them, he said, and to get on with business. And remember, he



Did they get the cash? Contra leaders Calero, Arturo Cruz and Alfonso Robelo

added: "No gloating in the cafeteria about a State Department victory."

Shultz's innocence in the contra affair was certified by no less an authority than Meese. "He was not involved, nor was he informed about any of the implementing steps," confirmed the attorney general. Shultz had dissented from Reagan's Iran policy and thereafter kept clear of the developing morass. Last week, to complete his triumph, the president formally transferred responsibility for Iran policy from the NSC to the State Department. After a series of remarkably public disagreements with Reagan, Shultz repledged his allegiance. "I support the president's policy fully and across the board," he said. The

next day department spokesman Charles Redman said that, far from resigning, Shultz had "every intention of staying the course" for the rest of Reagan's term.

But Shultz's victory could prove to be costly. By facing down the president, he enraged many conservatives, who already regarded him as too "liberal" by far. "If Shultz continues as secretary of state," fumed Howard Phillips, "then Reagan has basically accepted the role not even of Queen Elizabeth, but of the Queen Mother." Nancy Reagan also was said to resent Shultz's display of independence. When the dust settles from the Iran affair, Shultz may find that staying the course is more difficult than he expected.



A denial that Israel profited: Peres in the Knesset

'Cap' and Reagan: A Secret Mission

In September 1985 Defense Secretary Weinberger instructed a handful of senior aides to prepare in great secrecy for the shipment of certain weapons to Israel. The shipments were intended to "back-fill" Israeli stockpiles, which were being drained by arms sales to Iran. Weinberger objected to cooperating with the sponsors of terrorism. He was deeply uneasy about the political risks of a deal with Iran, and he worried that the shipments might possibly break the law. The secretary thought that the policy was misguided—that the desire to get American hostages out of Lebanon had overwhelmed other considerations. But Weinber-

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ger indicated to his subordinates that he was obeying an order from President Reagan. And so, four months before Reagan signed an intelligence "finding" that legalized the shipments, "Cap" Weinberger carried out the president's instructions.

That was the story that a source with intimate knowledge of the affair told *NEWSWEEK*'s John Barry last week. Speaking for Weinberger, Pentagon spokesman Robert Sims formally denied the account. "The secretary has no recollection of anything like this," he said. But the record shows that Weinberger had been battling against arms sales to Iran since June 1985, when Robert McFarlane, then Reagan's national-security adviser, wrote a memo recommending an effort to restore U.S. relations with Iran. McFarlane touched very briefly—"one line in a six-page document," as one source recalls it—on the possibility of supplying unspecified "military equipment" to Iran. As he read his copy of the memo, Weinberger wrote in the margin: "This is almost too absurd for comment."

George Shultz agreed, and at a meeting in the White House, the two senior cabinet members managed to kill the proposal—or so they thought. But in September, Israel sent a shipment of U.S. arms to Iran, evidently with Reagan's approval. At his news conference last week, Meese conceded: "Our information is that the president knew about it, probably after the fact, and agreed . . . That's the information I have." At about the same time, according to *NEWSWEEK*'s sources, Weinberger allegedly ordered the Pentagon to prepare to ship TOW and Hawk missiles to Israel, ostensibly as replacements for stocks expended during Israel's campaign in Lebanon. The Pentagon's first shipment to Israel—a consignment of "hundreds" of Hawks, according to one source—went out in November, while it was still illegal to send weapons to Iran. The shipment went to Portugal, then to Israel and finally on to Teheran.

At the end of November 1985 there was a showdown in the White House between Reagan and McFarlane, on one side, and

Shultz and Weinberger, on the other. The two secretaries prevailed, and shipments to Iran were put on hold. Then the administration reversed course again after two White House meetings in December and January. On Jan. 17, Reagan signed the intelligence order that was designed to make arms sales to Iran legal. Shipments resumed and went on until late October of this year. At least 250 tons of equipment, worth an estimated \$50 million, were sent to Iran during 1986, sources say. So far, three hostages have been released in Lebanon—and three other Americans have been kidnapped by followers of Iran.

RUSSELL WATSON with JOHN BARRY, KIM WILLENSON, HOWARD FINEMAN and ROBERT B. CULLEN in Washington. THOMAS M. DEFRANKIN in Santa Barbara and bureau reports



WILLIAM CASEY

The man who should know all the secrets said he heard 'gossip'



Before the North announcement, a White House strategy session: (left to right) Reagan, Meese,

Weinberger, Reagan, Bush, Shultz, Casey, Treasury Secretary James Baker

ILLUSTRATION BY JULIAN ALLEN